

STATE FINANCE COMMITTEE
OLYMPIA, WASHINGTON

December 13, 2001

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Kristi Wolgamot, Office of the State Treasurer
Jeanne Cushman, Office of the Attorney General
Suzanne Coit, Office of the State Treasurer
Bill Starkey, Department of Transportation
Sue Melvin, Office of the State Treasurer
Nancy Notter, Office of the State Treasurer
Pam Johnson, Office of the State Treasurer
Svein Braseth, Office of the State Treasurer
Mike Roberts, Office of Financial Management
Rich Struna, Transportation Improvement Board
Shad Pruitt, Office of the State Treasurer
Darlene DeRose, Montague DeRose & Associates
Linda Wolverton, Washington State Association of County Treasurers
Robert Noland, City of Kennewick
Doug Lasher, Clark County Treasurer
Nancy Adams, Office of the State Treasurer
Scott Matheson, King County Finance Division
Dean Torkelson, Seattle Northwest Securities Corporation
Bill Tonkin, Foster Pepper & Shefelman
Mike Bailey, City of Lynnwood
Barton Potter, Office of the State Treasurer
Brian McCartan, Sound Transit
Steve Gorcester, Transportation Improvement Board
Bill James, Port of Port Angeles
Vicki Cox, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lieutenant Governor Owen moved the minutes for the July 31, 2001 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said Proposed Resolution No. 948 provides for the issuance and sale of up to \$283,325,000 State of Washington Various Purpose General Obligation Bonds, Series 2002B, authorized by Chapter 14, Laws of 1989, 1st Sp. Sess.; Chapter 15, Laws of 1990, 1st Ex. Sess.; Chapter 380, Laws of 1999, Reg. Sess.; Chapter 9, Laws of 2001 2nd Sp. Sess.; and Chapter 39.42 RCW for the purpose of providing funds to pay and reimburse the state for various state capital project expenditures; fixing the date, form, terms, maturities, redemption provisions and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds.

The Series 2002B will be used to fund cash flow requirements for construction of state capital projects. Bond proceeds from this proposed issue are to be deposited or transferred to the following funds: State Building Construction Account (fund 057), State and Local Improvement Revolving Account -- Waste Disposal Facilities 1980 (fund 055), Outdoor Recreation Account (fund 070), State and Local Improvement Revolving Account -- Water Supply Facilities (fund 072), Habitat Conservation Account (fund 244), Capitol Historic District Construction Account (fund 350), and Higher Education Construction Account (fund 01L). The Series 2002B Bonds are tax-exempt current interest bonds. The interest will be paid semi-annually on the outstanding principal. The Series 2002B Bonds are structured to produce an approximate level debt service over the life of the Bonds.

It was reported that Moody's Investors Service had revised the State credit outlook to Negative from Stable. Standard & Poor's Rating Agency and Fitch ICA have not yet assigned new ratings to the state. Ms. DeRose said the state's Office of the Forecast Council's November revenue forecast included the impact of September 11, 2001. Chairman Murphy said due to the reduced revenues, the Governor's budget included reduction of staff and programs. He explained that entire programs would be cut to avoid under-funding programs and having tort claims filed as a result. Lt. Governor Owen said he thought it was in 1977 or 1978 that the state had a fiscal "25th month" with a low reserve. He said the rating agencies told the state to diversify our revenue base. Ms. DeRose said the state has developed better fiscal management policies. Mr. Torkelson said the state has recently had the highest ratings it has ever had, which implies the implementation of higher standards.

Mr. Martin presented proposed Resolution No. 948 to the committee.

Resolution 948 authorizes the issuance and sale of up to \$283,325,000, State of Washington Various Purpose General Obligation Bonds, Series 2002B, authorized by Chapter 14, Laws of 1989, 1st Sp. Sess.; Chapter 15, Laws of 1990, 1st Ex. Sess.; Chapter 380, Laws of 1999, Reg. Sess.; Chapter 9, Laws of 2001 2nd Sp. Sess.; and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution No. 948. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said Proposed Resolution No. 949 authorizes the issuance and sale of Series 2002C Bonds. The resolution provides for the issuance of Motor Vehicle Fuel Tax General Obligation Bonds, Series 2002C, of the state, in the principal amount of up to \$338,075,000,

authorized by Ch. 321, Laws of 1998 (Referendum 49), (RCW 47.10.843); Ch. 431, Laws of 1993, (RCW 47.10.812); Ch. 440, Laws of 1993, as amended, (RCW 47.26.500) and Chapter 39.42 RCW for the purpose of providing funds to pay and reimburse various state highway projects and to pay and reimburse the transportation improvement account, fixing the date, form, terms, maturities, redemption provisions and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds.

Chairman Murphy said Referendum 49 was the issue that dealt with \$1.9 billion worth of authorized bonds, but a subsequent Referendum 695 took away the motor vehicle excise tax funding source. This is utilizing the funding source of motor vehicle fuel tax authorized within Referendum 49. Chairman Murphy introduced Bill Starkey with the Department of Transportation and Steve Gorcester, Executive Director, Transportation Improvement Board. Mr. Gorcester summarized the Transportation Improvement Board projects these bonds would finance. He thanked Office of the State Treasurer staff, Svein Braseth and Suzanne Coit, for their assistance.

Mr. Martin presented proposed Resolution No. 949 to the committee.

Resolution 949 authorizes the issuance and sale of up to \$338,075,000, State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2002C, authorized by Chapter 321, Laws of 1998 (Referendum 49), (RCW 47.10.843); Chapter 431, Laws of 1993, (RCW 47.10.812); Chapter 440, Laws of 1993, as amended (RCW 47.26.500); and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution No. 949. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said the Central Puget Sound Regional Transit Authority (“Sound Transit”) is a regional transit authority created under RCW 81.112.320. Sound Transit has undertaken a transaction authorized by RCW 81.112.300, specifically, a leveraged lease financing transaction of locomotives, cab cars and coaches in connection with Sound Transit’s regional rail transit operations. Pursuant to RCW 81.112.330(4), the firm Davis Wright Tremaine LLP, acting as special counsel for Sound Transit, provided documents to the committee relative to the transaction. Mr. Martin said documents were also provided to Seattle Northwest Securities as financial advisor to the state. Mr. Torkelson said he had reviewed the material, it was \$60 million in rolling stock. He said it was straight-forward financing and would be effective for the Sound Transit Authority. Mr. McCartan summarized the Sound Transit funding. He thanked the Treasurer and his staff for their assistance in tracking the legislation that allows the transaction and for making suggestions to help tighten it, thus making the final version stronger. Lt. Governor Owen moved to accept the information as required under RCW 81.112.300. Chairman Murphy said it was an information item on the agenda.

Mr. Martin said Proposed Resolution No. 950 recommends the appointment of a Fiscal Agent: Chapter 43.80 RCW authorizes the State Finance Committee to appoint a fiscal agent(s) to serve for a period of four years. The fiscal agent serves as the paying agent to bondholders on bonds

issued by the state and its political subdivisions. At its January 23, 2001 meeting, the State Finance Committee was informed that the current statewide fiscal agency agreement would expire in February, 2002. If a new fiscal agent were to be appointed, the Office of the State Treasurer (OST) would need substantial time to name an agent and convert from its predecessor. Therefore, OST prepared and circulated on May 17, 2001 a request for proposal (RFP) to interested banking institutions. OST enlisted the help of a local government working group to develop the RFP and recommend a fiscal agent provider for the next four years. OST asked for input from the local bond counsel community and made presentations to the Washington Finance Officers Association and Washington Municipal Treasurers Association. The working group met five times to prepare and review the RFP. OST placed ads in The Bond Buyer and the Seattle Daily Journal of Commerce indicating that the RFP was being circulated. On the due date (July 6) four proposals were received, from: The Bank of New York (BoNY), JPMorgan Chase, Union Bank of California, and U.S. Bank Trust NA.

Mr. Martin said an OST team of Allan Martin, Shad Pruitt and Svein Braseth evaluated the proposals. Mr. Martin said Mr. Pruitt and Mr. Braseth did an excellent job with due diligence in evaluating the proposals and made special note of Mr. Pruitt's work. All respondents met the requirement of a financial threshold of \$50 million in paid-in capital and surplus. The evaluation team first focused on completeness of the proposal, experience, operations, application of technology, SEC compliance, organization, and bondholder and obligor relations. Three of the four respondents proposed to continue the current local paying agent/co-fiscal agent relationship with Wells Fargo Bank while a fourth, U.S. Bank Trust NA, proposed the use of its own statewide branch network.

Mr. Martin said the local government working group included The Honorable Douglas Lasher, Clark County Treasurer; Michael Bailey, Finance Director, City of Lynnwood; Robert Nolan, Support Services Director, City of Kennewick; Scott Matheson, King County Finance Division; and Bill James, Director of Finance, Port of Port Angeles. The working group and OST staff narrowed the field to two candidates – Bank of New York and JPMorgan Chase – whose written proposals appeared to best serve the needs of state and local obligors as set forth in the RFP. The group determined the best way to assess the functional capability of either firm was to inspect the candidates' facilities in person and meet with key personnel.

Mr. Martin said OST staff, working group members and Assistant Attorney General Jeanne Cushman traveled to Dallas September 5 to interview and tour JPMorgan Chase – Bond Operations. The group went from there to New York City on September 7 to meet with principals of The Bank of New York. Both firms made day-long presentations, provided tours, and outlined their commitment to their fiscal agent proposals. The working group met with the front-line employees who would be working directly with the state and local governments.

The working group first evaluated the candidates on their ability to do the work as the state fiscal agent, without considering proposed fees for service. Then, the fee proposals were evaluated, focusing on the current number of issues outstanding, number of new issues, and percentage of outstanding bonds and coupons held at Depository Trust Corporation (DTC). Evaluators estimated candidates' proposed fees for principle outstanding, payment services, registrar and transfer agent services, redemptions, commercial paper acceptance/set up fee, annual administrative fee, registrar

and transfer agent and variable rate services. A draft pro forma was compiled to compare the estimated annualized fee proposals for all services to each of the existing 394 obligors.

Mr. Martin said OST staff, serving as staff to the State Finance Committee, along with the local government working group, and the Washington State Association of County Treasurers, today unanimously recommend to the State Finance Committee the appointment of The Bank of New York, New York City, as fiscal agent and Wells Fargo Bank, Seattle, Washington, as co-fiscal agent pursuant to Chapter 43.80 RCW.

Mr. Bailey, as spokesman for the local government working group, said it really appreciated being brought into the process early on. He said the process was very thorough and the local government representatives appreciated being part of that process. It is very important to local government officials that the fiscal agent be able to satisfy bond holders and pay them in a timely manner. It has also been helpful that in-state bond holders can go to a Wells Fargo branch and be paid. Mr. Bailey said he concurs with the recommendation to award the fiscal agent contract to The Bank of New York and Wells Fargo Bank, Seattle, as co-fiscal agent.

Chairman Murphy thanked all members of the working group. He said, as a former county treasurer, he understands how important it is to maintain good relationships with local governments. He referred to a copy of the resolution in the briefing book from the Washington State Association of County Treasurers (WSACT).

Ms. Wolverton said the main reason WSACT wanted to recommend the fiscal agent contract go to The Bank of New York (BoNY) is that local governments are required to safeguard money, and WSACT members felt payments and earnings are properly handled by BoNY.

Lt. Governor Owen asked why JP Morgan was not chosen since it proposed a higher earnings rate than BoNY. Mr. Bailey responded that part of the thoroughness of the process involved calling countless numbers of references for both finalists; he and Mr. Martin were bothered that more than one reference responded to having problems with JPMorgan. Lt. Governor Owen asked if BoNY was impacted by the September 11 attack in New York. Mr. Bailey said BoNY's headquarters were across the street from "ground zero" and the building had severe damage to that wall. With very few exceptions, transactions have continued on the same day. He said he thought it phenomenal that BoNY could continue doing business under those circumstances. Chairman Murphy said on September 17, he received a call from a BoNY senior vice president apologizing that payments were mailed on the 17th instead of the 15th of the month.

Mr. Martin presented proposed Resolution No. 950 to the committee.

Resolution 950 appointing fiscal agent banks to the State and its political subdivisions pursuant to RCW 43.80.

Lt. Governor Owen moved to adopt Resolution No. 950. Chairman Murphy seconded the motion and the resolution was adopted.

Chairman Murphy thanked everyone for their hard work. He acknowledged it was a difficult choice. He said staff would continue to do annual reviews of the fiscal agent to assess its ability to issue debt and pay investors promptly. Mr. Martin added his thanks to staff and the local government working group for their hard work.

Chairman Murphy said the Office of the State Treasurer would be moving out of the Legislative Building in January, 2002, in preparation for the building to be repaired, renovated, remodeled and upgraded which was expected to take the remainder of his term in office.

There being nothing further to come before the committee, the meeting was adjourned at 10:04 a.m.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary